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C O N F I D E N T I A L SECTION 01 OF 02 PRAGUE 001586

SIPDIS

E.O. 12958: DECL: 11/07/2015

TAGS: [PGOV](#) [ELAB](#) [EZ](#)

SUBJECT: CZECH DRAFT LABOR CODE: APPEALS TO THE COMMUNISTS  
AND APPALS THE BUSINESS COMMUNITY

REF: A. PRAGUE 911

[B. PRAGUE 1325](#)

[C. PRAGUE 1575](#)

Classified By: ECONOFF KIRK SAMSON for reasons 1.4(b+d).

[¶1.](#) (SBU) SUMMARY: In a political move that has brought together the Social Democrat and Communist parties and could cool investment in the Czech Republic, Prime Minister Jiri Paroubek has made his union-friendly Labor Code a "super priority" that he wants passed before the elections in June 2006. By most analyses, the bill would do nothing to inject the labor market flexibility the Czech Republic needs to boost long-term growth prospects. END SUMMARY

[¶2.](#) (U) The new Labor Code is one of about 20 bills that PM Paroubek has designated as super priorities for passage in the coming months. On October 19, the draft Labor Code passed its first reading in Parliament and will receive the second reading before end 2005. While debate continues on the contents and interpretation of the 300 plus pages of draft legislation, there is general agreement among economists and businesses that it expands the role of labor unions and does not improve the flexibility of the labor force.

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Labor Code pulls Communists and Ruling Social Democrats Closer  
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[¶3.](#) (U) The bill was approved by the cabinet September 19 despite the opposition of junior coalition member KDU-CSL, which argues that it is not business-friendly. The Communist party, which likes the pro-union elements of the bill, joined with the CSSD to approve the bill in the first reading. PM Paroubek has openly declared that the bill is so important that he will continue to turn to the Communists if his center-right coalition partners decide not to support it during the second and third parliamentary readings. The Prime Minister's willingness to deal with the Communists on this and other important pieces of legislation has caused noisy debates about the possible makeup of the government, which will be formed after the general election next June (as reported in reftel C).

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Businesses Appalled  
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[¶4.](#) (SBU) While speaking to the AmCham in Prague on 3 November, Paroubek attempted to squash discussion of the Labor Code by noting that "labor costs in the US are higher because they have a shorter notice period" and therefore lower wages in the CR require that workers receive longer notice period for employment termination. This nonsensical argument did not go over well with the business community in attendance, but questioners were more interested in grilling the Prime Minister on the rampant corruption in the construction industry than on discussing the labor code. This is in part due to the Prime Minister's prefacing comments before the question and answer period of his speech, in which he stated that the Social Democrats are a labor party, and that a non-negotiable platform of their party is protect the worker. He said that there is nothing "completely" new in the proposed code, and that claims from the opposition parties that it is a barrier to business are propaganda, otherwise they would have changed the code when they were the government in the mid 1990s.

[¶5.](#) (U) Labor flexibility is an important element of improving the EU competitiveness of the Czech Republic, as well as the rest of Europe, as articulated in the Lisbon Agenda. At best, the draft Labor Code would maintain the current lack of flexibility in the labor sector. As noted by the IMF, the virtually flat employment trend in the Czech Republic (8.3 percent unemployment rate in 2004, essentially unchanged in the first three quarters of 2005) despite solid GDP growth in recent years is indicative of labor market rigidity (reftel B). Even the Czech National Bank Governor Zdenek Tuma came out on October 18 saying that the draft Labor Code would not improve the flexibility of the labor market.

[¶6.](#) (SBU) Consequently, there is a widely shared view that

the draft Labor Code would have a negative impact on the investment climate. Specifically, it would expand the role of labor unions by mandating that they represent non-union members, grant labor unions the power to shut down production based on their sole determination of worker safety standards, and possibly (depending on interpretation) give labor unions a voice in the hiring and firing of top executive positions. Defenders of the draft Labor Code insist that none of the proposed language is 'new.' This is a telling statement since the current Labor Code was drafted in the 1960s, with numerous subsequent amendments which have led to an admittedly Byzantine patchwork of labor regulations. Times have changed; a change to a market economy and globalization have lead to permanent and dramatic changes to the Czech economy. To the extent that the draft Labor Code does not reflect that change, this is a reason for concern from the competitiveness and investment climate perspectives.

**17.** (SBU) The way in which the Labor Code was drafted added to the controversy. Consultations between the Tripartite -- the umbrella labor union organization (CMKOS), the government (as represented by the Ministry of Labor) and the employers' representative (the Confederation of Industry of the Czech Republic) -- broke down during the corruption scandal that eventually brought down former Prime Minister Stanislav Gross, when the business representatives walked away from the table. They were frustrated by their seemingly futile efforts to inject more business-friendly language into the draft Code, and allegedly were betting that the then-CSSD government would fall, making the consultations moot. They were wrong, as the CSSD-led coalition survived, and by the time the Confederation returned to the negotiating table, the unions and Labor Ministry had essentially agreed on the current draft of the bill.

**18. (C) COMMENT:** The new Labor Code would substantially increase the powers of the Czech trade unions that were otherwise on their way to oblivion (20% of the workforce is currently unionized and membership has been dropping by an average 8% annually.) By passing the Labor Code in its current form, the Paroubek government is making a strong statement against liberalization, and seems intent on rewarding their voters with a German-style labor system that will make it much harder for businesses to adjust to market conditions. However, business leaders see the passage of the legislation as inevitable now that Paroubek has proven that he is prepared to work with the Communists to pass this bill, and are hoping that a win by the center-right opposition in next year's election might lead to a reversal of the Code. This hope seems slimmer every month, as CSSD continues to gain ground in the polls. END COMMENT.

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